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2 key steps can help

Arizona's budget crisis has turned into a double whammy: The major revenue shortfall is creating a huge cash-flow problem.

The state will run out of money to pay its bills in the next two or three months. The Legislature, which goes into session Monday, must act immediately so there are adequate legal tools for bridging the gap.

The problem is that major monthly expenses, such as education funding, are due before tax revenues come in. Since World War II, Arizona has always had enough cash reserves to get through.

Until now. With a \$9.9 billion budget this fiscal year and an anemic revenue stream that will fall at least \$1.2 billion short, the state has burned through its reserves.

With the fiscal year half gone, it's virtually impossible for lawmakers to fix the budget in time to avoid a cash-flow emergency. They need to take two steps to deal with it:

- Reschedule due dates for the big K-12 payment to match monthly tax receipts. State Treasurer Dean Martin says this is like making sure your mortgage isn't due before your monthly paycheck arrives. In this case, there would have to be careful discussions to prevent any financial hardship on schools.
- Clarify the rules for borrowing. Right now, the treasurer must exhaust the resources in state investments, as well as cash, before borrowing. Legislators need to change the wording of the law so that Martin isn't forced to take steps like recalling \$110 million in state loans to the Arizona Department of Transportation - which would stall a lot of its projects.

The second step doesn't violate the state's \$350,000 constitutional limit on borrowing, Martin says, because it's short-term debt that is paid off within the fiscal year. In its early years, Arizona routinely used short-term borrowing to cover its immediate obligations, he says, because it relied on property-tax revenues that came in just twice a year.

Lawmakers must also move swiftly on the overarching budget challenge, the shortfall for fiscal 2009.

Incoming House Speaker Kirk Adams and Senate President Bob Burns have pledged a more transparent process, with the budget crafted in committees instead of behind closed doors. We count on them to find a way to combine speed and transparency.